

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01

PRS-01 /099 W

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R 300940Z JUL 76

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 4131

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

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E.O. 11652: GDS

TAGS: ENRG, MY

SUBJECT: PETROLEUM: EXXON DISCUSSES PETROLEUM NEGOTIATIONS WITH
PRIME MINISTER

REF: KUALA LUMPUR 4353

1. ESSO EASTERN PRESIDENT O'LAUGHLIN, J. WALWOORD EXXON
PRODUCTION MALAYSIA PRESIDENT, AND R.J. SMITH, ESSO
MALAYSIA CALLED ON AMBASSADOR JULY 29 TO REPORT ON PRIVATE
MEETING WITH PRIME MINISTER WHICH FOLLOWED MEETING ON
PREVIOUS DAY WITH SENIOR OIL COMPANY EXECUTIVES REPORTED
REFTEL. SECRETARY OF GOVERNMENT TAN SRI KADIR SHAMSUDDIN WAS
THE ONLY OTHER GOVT OFFICIAL PRESENT. FOLLOWING IS SUBSTANCE
THEIR REPORT:

2. O'LAUGHLIN BEGAN BY SAYING THAT PM'S ADDRESS IN PREVIOUS
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DAY'S MEETING SUGGESTED HE THOUGHT EXXON HAD BEEN DRAGGING ITS

FEET IN NEGOTIATIONS WITH PETRONAS. THIS WAS FAR FROM THE TRUTH SINCE EXXON HAD ALREADY INVESTED M\$613 MILLION, AND HAD RECEIVED ONLY M\$45 MILLION IN REVENUE. HE THEN REVIEWED HISTORY OF EXXON'S RELATIONSHIPS AND NEGOTIATIONS WITH PETRONAS AND INDICATED MAJOR PROBLEM AREAS. IT APPARENT FROM MEETING THAT PM HAD BEEN TOLD ONLY PART OF STORY BY RAZALEIGH.

3. WITH FULLER UNDERSTANDING OF SITUATION, PARTICULARLY THAT EXXON HAD NOT BEEN FOOT-DRAGGING AND IN FACT, WAS QUITE ANXIOUS TO REACH AGREEMENT, PM WAS RESPONSIVE AND ACCOMMODATING, SAYING THAT EXXON PARTICIPATION WAS DESIRED AND WELCOME.

4. IN RESPONSE EXXON SUGGESTION, PM AGREED THAT GOM NEGOTIATING TEAM SHOULD BE CHANGED IF NEGOTIATIONS WERE TO SUCCEED. DELS SCHEDULED MEET MORNING JULY 30, TO DISCUSS WHAT TO DO NEXT.

5. KADIR SHAMSUDDIN INFORMED O'LAUGHLIN BEFORE MEETING THAT HE WILL BE NEW CHAIRMAN OF PETRONAS. PM CONFIRMED THIS, SAYING THAT IT WOULD BE ANNOUNCED SOON.

6. RE MANAGEMENT SHARES ARTICLE OF PETROLEUM ACT AMENDMENT, PM SAID "WE ARE GOING TO CHANGE AMENDMENT TO ELIMINATE THIS BUT I CAN'T NOW."

7. SURPRISINGLY, PM ALSO RAISED POSSIBILITY OF MAKING DOWNSTREAM FACULTIES PART OF NEGOTIATING PACKAGE. EXXON HAD, OF COURSE, BEEN THINKING ONLY OF UPSTREAM IN KAURRENT NEGOTIATIONS. EXXON INDICATED ITS RELUCTANCE TO RELINQUISH BEYONG FIFTY PERCENT OF EQUITY DOWNSTREAM AND, AFTER RAISING QUESTION OF RETAINING MANAGEMENT RIGHTS, ASKED THE GOM POSITION. PM DID NOT REALLY ANSWER QUESTION, MENTIONING PROBLEM OF GOM MAKING POLICY DECISIONS.

8. IN RESPONSE TO PM'S REQUEST, EXXON PROVIDED HIM ONE-PAGE SUMMARY OF PRIMARY TERMS. FULL EXXON PRODUCTION SHARING PROPOSAL WILL BE TABLED AT EXXON/PETRONAS MEETING TODAY.

9. MEETING CLOSED WITH PM SAYING THAT IN CASE OF IMPASSE, EXXON SHOULD COME BACK TO PM DIRECTLY, THAT EXXON PARTICIPATION WANTED AND ALTHOUGH "I DON'T KNOW THE DETAILS, I WANT THE CONFIDENTIAL

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NEGOTIATIONS TO SUCCEED". EXXON INFORMED US THAT THEY INTENDED TO USE THIS CHANNEL WHEN NEEDED.

10. IN SEPARATE MEETING ON JULY 29, MINISTER MUSA HITAM INFORMED O'LAUGHLIN THAT CABINET HAD NOT BEEN AWARE OF BUY-OUT ASPECT BEFORE JULY 28 MEETING. MUSA ASKED FOR BRIEFING PAPER FROM EXXON, SUGGESTED THAT COPIES ALSO BE PROVIDED TO DPM, MINISTER TAIB, MINISTER HAMZAH AND OTHERS. EXXON SAID THEY

WOULD DO SO. MUSA ALSO SUGGESTED THAT PRINCIPALS INCLUDING PM BE KEPT INFORMED OF DEVELOPMENTS.

11. COMMENT: EXXON IS FEELING REASSURED AFTER SECOND MEETING WITH PM. O'LAUGHLIN DEPARTED KL TODAY FOR HOUSTON "TO CALM DOWN THE DIRECTORS." RAZALEIGH BACKED OFF SLIGHTLY BY ANNOUNCING IN PRESS CONFERENCE YESTERDAY THAT ONLY AGREEMENT IN PRINCIPAL NEED BE REACHED BY NOVEMBER 15, AND THAT FORMAL AGREEMENT COULD BE REACHED LATER.
UNDERHILL

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